

**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MORGAN COUNTY FISCAL COURT**

**June 30, 2011**

The Auditor of Public Accounts has completed the audit of the Morgan County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information of the financial statements of Morgan County, Kentucky.

**Financial Condition:**

The fiscal court had total net assets of \$15,852,425 as of June 30, 2011. The fiscal court had unrestricted net assets of \$169,953 in its governmental activities as of June 30, 2011. The fiscal court had total debt principal as of June 30, 2011 of \$19,422,790 with \$1,075,771 due within the next year.

**Report Comment:**

2011-01    Fiscal Court Should Maintain Proper Records For The Public Properties Corporation

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Morgan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Morgan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
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Members of the Morgan County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2012 on our consideration of Morgan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2011-01 Fiscal Court Should Maintain Proper Records For The Public Properties Corporation

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

June 27, 2012



MORGAN COUNTY OFFICIALS

For The Year Ended June 30, 2011

**Fiscal Court Members:**

Tim Conley	County Judge/Executive
Jon Brown	Magistrate
Denzil Potter	Magistrate
Frankie Spencer	Magistrate
Anthony Lykins	Magistrate
Stanley Riggsby	Magistrate

**Other Elected Officials:**

D. Joleen Frederick	County Attorney
Jimmy D. Easterling	Jailer
Randy Williams	County Clerk
Donna Pelfry	Circuit Court Clerk
Mickey Whitt	Sheriff
Darby Franklin	Property Valuation Administrator
Raymond Vancleave	Coroner

**Appointed Personnel:**

Tommy Phipps	County Treasurer
Lynn McClurg	Road Supervisor

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**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 10,225,373
Asset Held For Resale	134,204
Receivable Due From Ambulance Service	79,237
Receivable Due From Gateway Community Services	2,264
Total Current Assets	<u>10,441,078</u>
Noncurrent Assets:	
Receivable Due From Ambulance Service	116,977
Capital Assets - Net of Accumulated Depreciation:	
Land	3,162,164
Construction In Progress	4,199,701
Land Improvements	1,567,260
Buildings	6,555,811
Furnishings	16,902
Vehicles and Equipment	742,834
Infrastructure	8,472,488
Total Noncurrent Assets	<u>24,834,137</u>
Total Assets	<u>35,275,215</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Revenue Bond Payable	605,000
Financing Obligations Payable	470,771
Total Current Liabilities	<u>1,075,771</u>
Noncurrent Liabilities:	
Revenue Bond Payable	14,025,000
Financing Obligations Payable	4,322,019
Total Noncurrent Liabilities	<u>18,347,019</u>
Total Liabilities	<u>19,422,790</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	5,614,250
Restricted For:	
Capital Projects	10,068,222
Unrestricted	169,953
Total Net Assets	<u><u>\$ 15,852,425</u></u>

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**

**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,279,594	\$ 162,593	\$ 417,613	\$ 1,530,999
Protection to Persons and Property	819,212	98,206	150,669	
General Health and Sanitation	248,960			
Social Services	4,500			
Recreation and Culture	48,252			
Roads	1,735,428		1,691,666	187,210
Debt Service	594,740			
Capital Projects	233,876			
Total Governmental Activities	\$ 4,964,562	\$ 260,799	\$ 2,259,948	\$ 1,718,209

**General Revenues:**

Taxes:	
Real Property Taxes	
Personal Property Taxes	
Motor Vehicle Taxes	
Occupational Taxes	
Other Taxes	
In Lieu Tax Payments	
Excess Fees	
Miscellaneous Revenues	
Interest	
Total General Revenues	
Change in Net Assets	
Net Assets - Beginning (Restated)	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

**Net (Expenses) Revenues**  
**and Changes in Net Assets**  
**Primary Government**

**Governmental**  
**Activities**

\$	831,611
	(570,337)
	(248,960)
	(4,500)
	(48,252)
	143,448
	(594,740)
	(233,876)
\$	(725,606)

	130,108
	11,141
	56,078
	441,124
	643,621
	74,645
	71,988
	85,130
	11,655
	1,525,490
	799,884
	15,052,541
\$	15,852,425

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Special Projects Fund</b>	<b>Public Properties Corporation Fund</b>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 148,786	\$ 8,365	\$ 225,008	\$ 9,843,214	
Total Assets	<u>148,786</u>	<u>8,365</u>	<u>225,008</u>	<u>9,843,214</u>	.
<b>FUND BALANCES</b>					
<b>Restricted For:</b>					
Capital Projects			225,008	9,843,214	
<b>Assigned To:</b>					
Protection to Persons and Property	1,601				
Roads		8,365			
<b>Unassigned</b>	<u>147,185</u>				.
Total Fund Balances	<u>\$ 148,786</u>	<u>\$ 8,365</u>	<u>\$ 225,008</u>	<u>\$ 9,843,214</u>	.

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources

And Therefore Are Not Reported in the Funds.

Accumulated Depreciation

Asset Held For Resale

Note Receivable Due For Financing Obligations

Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.

Revenue Bond

Financing Obligations

Net Assets Of Governmental Activities

The accompanying notes are an integral part of the financial statements.

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2011**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$</u>	<u>\$ 10,225,373</u>
<u></u>	<u>10,225,373</u>

10,068,222

1,601

8,365

147,185

<u>\$</u>	<u>0</u>	<u>\$ 10,225,373</u>
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\$ 10,225,373

34,455,687

(9,738,527)

134,204

198,478

(14,630,000)

(4,792,790)

\$ 15,852,425

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**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Special Projects Fund</b>	<b>Public Properties Corporation Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,279,106	\$ 52,843	\$	\$
In Lieu Tax Payments	21,802			
Excess Fees	71,988			
Licenses and Permits	2,577			
Intergovernmental	440,161	1,621,149	482,366	1,076,580
Charges for Services	97,533			
Miscellaneous	230,724	4,910	22,500	
Interest	3,009	6,560	2,070	
Total Revenues	<u>2,146,900</u>	<u>1,685,462</u>	<u>506,936</u>	<u>1,076,580</u>
<b>EXPENDITURES</b>				
General Government	904,426			
Protection to Persons and Property	660,256		20,000	
General Health and Sanitation	125,548		32,051	
Social Services	4,500			
Recreation and Culture	9,409			
Roads	134,204	675,844	66,907	
Debt Service	394,032	428,597		1,074,580
Capital Projects	1,753	935,165	308,747	3,294,126
Administration	382,163	251,469	9,512	
Total Expenditures	<u>2,616,291</u>	<u>2,291,075</u>	<u>437,217</u>	<u>4,368,706</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(469,391)</u>	<u>(605,613)</u>	<u>69,719</u>	<u>(3,292,126)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds From Sale Of Asset Held For Resale	111,310			
Financing Obligation Proceeds	134,204	325,000	100,000	
Transfers From Other Funds	268,338	77,318		
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>513,852</u>	<u>402,318</u>	<u>100,000</u>	
Net Change in Fund Balances	44,461	(203,295)	169,719	(3,292,126)
Fund Balances - Beginning (Restated)	104,325	211,660	55,289	13,135,340
Fund Balances - Ending	<u>\$ 148,786</u>	<u>\$ 8,365</u>	<u>\$ 225,008</u>	<u>\$ 9,843,214</u>

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 2,898	\$ 1,334,847
	21,802
	71,988
	2,577
345,656	3,965,912
	97,533
	258,134
16	11,655
348,570	5,764,448
	904,426
2,919	683,175
	157,599
	4,500
	9,409
	876,955
	1,897,209
	4,539,791
	643,144
2,919	9,716,208
345,651	(3,951,760)
	111,310
	559,204
	345,656
(345,656)	(345,656)
(345,656)	670,514
(5)	(3,281,246)
5	13,506,619
\$ 0	\$ 10,225,373

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**MORGAN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds \$ (3,281,246)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,378,194
Asset Held For Resale	134,204
Depreciation Expense	(968,054)
Disposal of Asset Held For Resale	(123,851)

Notes Receivable Principal Received is recorded in the funds as a revenue, however, in the Government-Wide Financial Statements it results in an increase to cash and a decrease in notes receivable, which has no effect on Net Assets.

Notes Receivable Payments Received	(82,628)
Increase In Notes Receivable	109,405

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(559,204)
Revenue Bond Principal Payments	600,000
Financing Obligation Principal Payments	593,064

Change in Net Assets of Governmental Activities	\$ 799,884
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Morgan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. No component units are discretely presented.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Morgan County Public Properties Corporation**

The directors of the Morgan County Public Properties Corporation (PPC) are the duly elected County Judge/Executive and the other duly elected members of the Fiscal Court. The term of each director of the Corporation coincides with the director's term of office as a member of the Fiscal Court. Consequently, the governing board of the Corporation is entirely composed of Fiscal Court members and the Fiscal Court has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Morgan County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Morgan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Morgan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.



**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Projects Fund - The purpose of this fund is to account for various state and federal grant receipts and expenditures related to various projects.

Morgan County Public Properties Corporation Fund - The Morgan County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the county. The PPC issued debt to build the judicial center. The PPC entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which the AOC wishes to use and sublease all or a portion of certain facilities owned by the County. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA) and the Forestry Fund.

**Special Revenue Funds:**

The Road Fund, Special Projects Fund, Local Government Economic Assistance Fund, and the Forestry Fund, are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

**Capital Projects Fund:**

The Public Properties Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The County is only reporting infrastructure put in place on or after July 1, 2003.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	5-7
Infrastructure	\$ 20,000	2-40

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Fund (Capital Projects Fund) to be budgeted.

**J. Jointly Governed Organizations**

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of Morgan County: Morehead, Morgan, Rowan (MMRC) Industrial Park and West Liberty/Morgan County Airport Board.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 3. Receivables**

**A. Ambulance Service**

Morgan County Fiscal Court entered into financing obligations on behalf of the Morgan County Ambulance Service for the purpose of providing funds for the financing and purchase of four ambulances and defibrillators. The Morgan County Ambulance Service has agreed to pay all debt service requirements on the obligations. Future amounts due to Morgan County Fiscal Court are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2012	\$ 79,237
2013	59,836
2014	46,604
2015	10,537
	<u>\$ 196,214</u>

**B. Gateway Community Services**

Morgan County Fiscal Court entered into a financing obligation on behalf of Gateway Transportation for the purpose of providing funds for the financing and purchase of a vehicle. Gateway Transportation has agreed to pay all debt service requirements on the obligations. Future amounts due to Morgan County Fiscal Court are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2012	\$ 2,264
	<u>\$ 2,264</u>

**Note 4. Interfund Transfers**

Morgan County's interfund transfer activity for the fiscal year was as follows:

	<u>Non-Major Governmental Funds</u>	<u>Total Transfers In</u>
General Fund	\$ 268,338	\$ 268,338
Road Fund	77,318	77,318
Total Transfers Out	<u>\$ 345,656</u>	<u>\$ 345,656</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
Primary Government:	Beginning			Ending
Governmental Activities:	Balance	Increases	Decreases	Balance
	(Restated)			
Capital Assets Not Being Depreciated:				
Land	\$ 3,162,164	\$	\$	\$ 3,162,164
Construction In Progress	970,575	3,294,126	(65,000)	4,199,701
Total Capital Assets Not Being Depreciated	4,132,739	3,294,126	(65,000)	7,361,865
Capital Assets, Being Depreciated:				
Land Improvements	2,165,055	6,569		2,171,624
Buildings	9,559,008	65,000		9,624,008
Furnishings	37,030			37,030
Vehicles and Equipment	1,754,913	144,943		1,899,856
Infrastructure	12,428,748	932,556		13,361,304
Total Capital Assets Being Depreciated	25,944,754	1,149,068		27,093,822
Less Accumulated Depreciation For:				
Land Improvements	(550,303)	(54,061)		(604,364)
Buildings	(2,845,667)	(222,530)		(3,068,197)
Furnishings	(16,753)	(3,375)		(20,128)
Vehicles and Equipment	(981,433)	(175,589)		(1,157,022)
Infrastructure	(4,376,317)	(512,499)		(4,888,816)
Total Accumulated Depreciation	(8,770,473)	(968,054)		(9,738,527)
Total Capital Assets, Being Depreciated, Net	17,174,281	181,014		17,355,295
Governmental Activities Capital Assets, Net	\$ 21,307,020	\$ 3,475,140	\$ (65,000)	\$ 24,717,160

Depreciation expense was charged to functions of the primary government as follows:

<b><u>Governmental Activities:</u></b>	
General Government	\$ 182,485
Protection to Persons and Property	41,792
General Health and Sanitation	91,361
Recreation and Culture	45,412
Roads, Including Depreciation of General Infrastructure Assets	<u>607,004</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 968,054</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt**

**A. Kentucky Association of Counties Leasing Trust – Road Improvements**

On June 27, 2000, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full November 20, 2019 with an interest rate of 3.963%. The principal balance of the agreement a \$1,365,199 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 127,940	\$ 55,699
2013	135,996	50,144
2014	144,560	44,272
2015	153,662	38,009
2016	163,339	31,410
2017-2020	639,702	51,578
Totals	<u>\$ 1,365,199</u>	<u>\$ 271,112</u>

**B. Kentucky Association of Counties Leasing Trust – Road Improvements**

On December 20, 2001, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$1,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full December 20, 2021 with an interest rate of 3.88%. The principal balance of the agreement was \$951,232 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 66,596	\$ 37,993
2013	70,799	36,706
2014	75,268	32,237
2015	80,019	29,091
2016	85,070	25,786
2017-2021	513,008	155,907
2022	60,472	1,064
Totals	<u>\$ 951,232</u>	<u>\$ 318,784</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**C. Kentucky Association of Counties Leasing Trust - Library**

On April 19, 2002, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,260,000 for the building of a new library. The agreement requires variable monthly payments for 240 months to be paid in full January 20, 2021 with an interest rate of 4.64% plus administrative fees. The principal balance of the agreement was \$1,376,530 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 105,970	\$ 74,628
2013	116,906	68,883
2014	118,476	62,545
2015	125,135	56,122
2016	132,166	49,338
2017-2021	<u>777,877</u>	<u>130,873</u>
Totals	<u>\$ 1,376,530</u>	<u>\$ 442,389</u>

**D. Kentucky Association of Counties Leasing Trust – Road Equipment**

On April 28, 2003, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$440,000 for the purchase of road equipment. The agreement required variable monthly payments for 60 months to be paid in full May 20, 2011 with an interest rate of 4.743% plus administrative fees. As of June 30, 2011, the principle balance was paid in full.

**E. Kentucky Association of Counties Leasing Trust – Mini Module Ambulance**

On November 14, 2006, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$50,000 for the Ambulance Service. The agreement required variable monthly payments for 48 months to be paid in full November 20, 2010 with an interest rate of 4.743% plus administrative fees. As of June 30, 2011 the principle balance was paid in full.

**F. Kentucky Association of Counties Leasing Trust - Ambulance**

On January 28, 2008, the Morgan County Fiscal court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$83,980 for the Ambulance Service. The agreement requires variable monthly payments for 48 months to be paid in full February 20, 2012 with an interest rate of 4.103%. The principal balance of the agreement was \$14,986 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 14,986	\$ 225
Totals	<u>\$ 14,986</u>	<u>\$ 225</u>



**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**G. Kentucky Association of Counties Leasing Trust - Truck**

On June 23, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$11,288 for a GMC Yukon. The agreement required variable monthly payments for 36 months to be paid in full June 20, 2011 with an interest rate of 7.047%. As of June 30, 2011 the principle balance was paid in full.

**H. Kentucky Association of Counties Leasing Trust – Backhoe/Loader**

On September 29, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$47,607 for a backhoe/loader. The agreement requires variable monthly payments for 63 months to be paid in full January 20, 2014 with an interest rate of 4.563%. The principal balance of the agreement was \$25,607 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 8,000	\$ 1,127
2013	8,000	799
2014	9,607	356
Totals	<u>\$ 25,607</u>	<u>\$ 2,282</u>

**I. Kentucky Association of Counties Leasing Trust - Vehicle**

On December 1, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$20,141 for a vehicle. The agreement requires variable monthly payments for 36 months to be paid in full November 20, 2011 with an interest rate of 5.231%. The principal balance of the agreement was \$2,141 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 2,141	\$ 123
Totals	<u>\$ 2,141</u>	<u>\$ 123</u>

**J. Kentucky Association of Counties Leasing Trust – Mack Truck**

On December 22, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$123,851 for a Mack truck. The agreement required variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.899%. As of June 30, 2011 the principle balance was paid in full.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**K. Kentucky Association of Counties Leasing Trust - Ambulance**

On January 12, 2009, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$89,980 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.99%. The principal balance of the agreement was \$59,980 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 20,000	\$ 2,251
2013	20,000	1,441
2014	19,980	519
Totals	<u>\$ 59,980</u>	<u>\$ 4,211</u>

**L. Kentucky Association of Counties Leasing Trust – Road Paving Project**

On February 16, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$475,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 180 months to be paid in full January 20, 2025 with an interest rate of 1.85%. The principal balance of the agreement a \$443,098 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 25,066	\$ 18,463
2013	26,088	17,401
2014	27,151	16,289
2015	28,257	15,125
2016	29,408	13,924
2017-2021	166,019	49,790
2022-2025	141,109	12,545
Totals	<u>\$ 443,098</u>	<u>\$ 143,537</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**M. Kentucky Association of Counties Leasing Trust – Road Paving Project**

On February 24, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$325,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 180 months to be paid in full September 20, 2025 with an interest rate of 3.90%. The principal balance of the agreement a \$311,246 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 18,670	\$ 11,815
2013	19,121	11,072
2014	19,564	10,318
2015	20,017	9,541
2016	20,467	8,764
2017-2021	109,731	31,306
2022-2026	103,676	8,906
Totals	<u>\$ 311,246</u>	<u>\$ 91,722</u>

**N. Kentucky Association of Counties Leasing Trust - Defibrillators**

On May 19, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$36,000 for defibrillators. The agreement requires variable monthly payments for 36 months to be paid in full April 20, 2013 with an interest rate of 1.85%. The principal balance of the agreement a \$23,152 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 12,402	\$ 956
2013	10,750	388
Totals	<u>\$ 23,152</u>	<u>\$ 1,344</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**O. Kentucky Association of Counties Leasing Trust - Ambulance**

On November 17, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$100,000 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full November 20, 2014 with an interest rate of 4.51%. The principal balance of the agreement was \$85,417 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 25,000	\$ 3,417
2013	25,000	2,257
2014	25,000	1,105
2015	10,417	120
Totals	<u>\$ 85,417</u>	<u>\$ 6,898</u>

**P. Kentucky Association of Counties Leasing Trust – Mack Truck**

On October 10, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$134,204 for a Mack truck. The agreement requires variable monthly payments for 48 months to be paid in full October 20, 2013 with an interest rate of 2.55%. The principle balance of the agreement was \$134,204 as of June 30, 2011. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 44,000	\$ 2,678
2013	90,204	1,926
Totals	<u>\$ 134,204</u>	<u>\$ 4,604</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**Q. First Mortgage Revenue Bonds, Series 2010 – Judicial Center**

In June 2010, the Public Properties Corporation, a component unit of the Morgan County Fiscal Court, issued \$15,230,000 in First Mortgage Revenue Bonds, Series 2010. The proceeds from these revenue bonds were used to plan, design, and construct the Morgan County Judicial Center. These bonds are scheduled to mature in 2030 and carry an interest rate of 1.0% to 4.0%. Semiannual interest payments are required on December 1 and June 1 of each year.

The Morgan County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Judicial Center Building. The Morgan County Public Properties Corporation expects rentals for use of the Judicial Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Morgan County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds. The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full allowance payment in successive biennial budget period until June 30, 2030. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2011, the principal balance on these bonds was \$14,630,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 605,000	\$ 468,580
2013	615,000	462,530
2014	620,000	454,535
2015	630,000	444,305
2016	645,000	431,705
2017-2021	3,495,000	1,885,945
2022-2026	4,115,000	1,262,235
2027-2030	3,905,000	398,200
Totals	<u>\$ 14,630,000</u>	<u>\$ 5,808,035</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**R. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bond	\$ 15,230,000	\$	\$ 600,000	\$14,630,000	\$ 605,000
Financing Obligations	4,826,650	559,204	593,064	4,792,790	470,771
Governmental Activities					
Long-term Liabilities	<u>\$ 20,056,650</u>	<u>\$ 559,204</u>	<u>\$ 1,193,064</u>	<u>\$19,422,790</u>	<u>\$ 1,075,771</u>

**Note 7. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$223,430 in interest on financing obligations and \$474,580 in interest on bonds.

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2009 was \$170,071, FY 2010 was \$204,793, and FY 2011 was \$219,717.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 8. Employee Retirement System (Continued)**

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

Morgan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 9. Deferred Compensation (Continued)**

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2011, Morgan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 11. Related Party Transactions**

The Morgan County Treasurer, Tommy Phipps, is an employee of the depository where the County's cash and cash equivalents are held.

**Note 12. Prior Period Adjustments**

Net assets of the governmental activities as previously reported have been restated and increased by \$325 for General Fund voided checks and decreased by \$3 for a unidentified variance to the cash balance. Net Assets – Beginning was increased \$1 for rounding. These adjustments restate the beginning net assets for governmental activities to \$15,052,541.

There was a reclassification of \$890,000 from Construction in Progress to Land beginning balances on the Capital Assets Note 3. This adjustment did not cause a restatement to beginning net assets.

**Note 13. Change In Accounting Principle**

The County implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB Statement 54 have now been included in the general fund. The implementation did not cause a restatement to total fund balance or beginning net assets.



**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**



**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,232,250	\$ 1,308,286	\$ 1,279,106	\$ (29,180)
In Lieu Tax Payments	28,000	28,000	21,802	(6,198)
Excess Fees	156	71,988	71,988	
Licenses and Permits	2,578	2,578	2,577	(1)
Intergovernmental Revenue	329,795	390,344	367,234	(23,110)
Charges for Services	9,500	9,512	9,512	
Miscellaneous	219,697	338,606	341,921	3,315
Interest	1,500	2,906	2,677	(229)
Total Revenues	1,823,476	2,152,220	2,096,817	(55,403)
<b>EXPENDITURES</b>				
General Government	646,848	944,632	904,427	40,205
Protection to Persons and Property	98,200	105,906	99,278	6,628
General Health and Sanitation	128,500	138,107	125,548	12,559
Social Services	2,500	4,500	4,500	
Recreation and Culture	35,854	44,603	9,409	35,194
Debt Service	361,301	397,304	394,032	3,272
Capital Projects	7,500	7,500	1,752	5,748
Administration	408,057	429,394	351,045	78,349
Total Expenditures	1,688,760	2,071,946	1,889,991	181,955
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	134,716	80,274	206,826	126,552
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	87,000	87,000		(87,000)
Transfers To Other Funds	(259,910)	(259,910)	(152,500)	107,410
Total Other Financing Sources (Uses)	(172,910)	(172,910)	(152,500)	20,410
Net Changes in Fund Balance	(38,194)	(92,636)	54,326	146,962
Fund Balance - Beginning	38,194	92,536	92,861	325
Fund Balance - Ending	\$ 0	\$ (100)	\$ 147,187	\$ 147,287

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 67,000	\$ 67,000	\$ 52,843	\$ (14,157)
Intergovernmental Revenue	1,423,556	1,633,232	1,621,149	(12,083)
Miscellaneous	7,000	7,990	4,910	(3,080)
Interest	2,000	6,552	6,560	8
Total Revenues	<u>1,499,556</u>	<u>1,714,774</u>	<u>1,685,462</u>	<u>(29,312)</u>
<b>EXPENDITURES</b>				
Roads	561,750	686,663	675,844	10,819
Debt Service	442,650	431,018	428,597	2,421
Capital Projects	286,000	935,165	935,165	
Administration	309,656	256,438	251,469	4,969
Total Expenditures	<u>1,600,056</u>	<u>2,309,284</u>	<u>2,291,075</u>	<u>18,209</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(100,500)</u>	<u>(594,510)</u>	<u>(605,613)</u>	<u>(11,103)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		325,000	325,000	
Transfers To Other Funds	(87,000)	(87,000)		87,000
Transfers From Other Funds	37,500	37,500	77,318	39,818
Total Other Financing Sources (Uses)	<u>(49,500)</u>	<u>275,500</u>	<u>402,318</u>	<u>126,818</u>
Net Changes in Fund Balance	(150,000)	(319,010)	(203,295)	115,715
Fund Balance - Beginning	<u>150,000</u>	<u>211,661</u>	<u>211,660</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (107,349)</u>	<u>\$ 8,365</u>	<u>\$ 115,714</u>

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>SPECIAL PROJECTS FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 388,500	\$ 397,159	\$ 482,366	\$ 85,207
Miscellaneous		12,500	22,500	10,000
Interest		1,849	2,070	221
Total Revenues	388,500	411,508	506,936	95,428
<b>EXPENDITURES</b>				
General Government	216	216		216
Protection to Persons and Property	90,267	90,267	20,000	70,267
General Health and Sanitation	29,559	55,986	32,051	23,935
Roads	75,000	75,000	66,907	8,093
Capital Projects	205,468	317,806	308,747	9,059
Administration	57,990	27,522	9,512	18,010
Total Expenditures	458,500	566,797	437,217	129,580
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(70,000)	(155,289)	69,719	225,008
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		100,000	100,000	
Total Other Financing Sources (Uses)		100,000	100,000	
Net Changes in Fund Balance	(70,000)	(55,289)	169,719	225,008
Fund Balance - Beginning	70,000	55,289	55,289	
Fund Balance - Ending	\$ 0	\$ 0	\$ 225,008	\$ 225,008

**MORGAN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2011**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Capital projects funds are not shown in the Required Supplementary Information. The Public Properties Fund is a capital projects fund. The Jail Fund has been combined with the General Fund per GASB Statement 54.

**Note 2. General Fund Reconciliation**

**Reconciliation To Statement of Revenues, Expenditures And Changes In Fund Balance:**

Total Revenues - Budgetary Basis	\$ 2,096,817
Jail Fund Revenues Included Per GASB 54	161,393
Proceeds From Sale of Asset Held For Resale Reclassified	(111,310)
Total Revenues - Modified Cash Basis	<u>\$ 2,146,900</u>
 Total Expenditures- Budgetary Basis	 \$ 1,889,991
Jail Fund Expenditures Included Per GASB Statement 54	592,096
Asset Held For Resale Purchase	134,204
Total Expenditures- Modified Cash Basis	<u>\$ 2,616,291</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ (152,500)
Proceeds From Sale of Asset Held For Resale Reclassified	111,310
Financing Obligation Proceeds	134,204
Transfers From General to Jail Removed Per GASB Statement 54	152,500
Transfers To Jail From LGFA Added Per GASB Statement 54	268,338
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 513,852</u>

**MORGAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2011**





**MORGAN COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$	\$
Total Assets			
<b>FUND BALANCES</b>			
Total Fund Balances	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**



**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$	\$ 2,898	\$ 2,898
Intergovernmental	345,656		345,656
Interest		16	16
Total Revenues	<u>345,656</u>	<u>2,914</u>	<u>348,570</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property		2,919	2,919
Total Expenditures		<u>2,919</u>	<u>2,919</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>345,656</u>	<u>(5)</u>	<u>345,651</u>
<b>Other Financing Sources (Uses)</b>			
Transfers To Other Funds	<u>(345,656)</u>		<u>(345,656)</u>
Total Other Financing Sources (Uses)	<u>(345,656)</u>		<u>(345,656)</u>
Net Change in Fund Balances		(5)	(5)
Fund Balances - Beginning		5	5
Fund Balances - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 27, 2012. Morgan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Morgan County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Morgan County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morgan County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2011-01.

The Morgan County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

June 27, 2012

**MORGAN COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2011**



**MORGAN COUNTY  
COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2011**

**STATE LAWS AND REGULATIONS**

**2011-01 Fiscal Court Should Maintain Proper Records For The Public Properties Corporation**

Morgan County Fiscal Court failed to prepare receipts and disbursements ledgers, bank reconciliations, financial statements or report the bonded debt of the Public Properties Corporation Fund (PPC) for the fiscal year ended June 30, 2011. Fiscal Court is financially accountable and legally obligated for the debt of the PPC, so this entity is reported as a blended component unit on the financial statements. These funds should be handled in accordance with the requirements for county funds and proper documentation should be maintained for all activity of the PPC. KRS 62.210, as prescribed by the state local finance officer, states this includes, but is not limited to, maintaining receipts and disbursements journals, performing monthly bank reconciliations and preparing an annual financial statement. We recommend Fiscal Court ensure bank statements are reconciled monthly, receipts and disbursements ledgers and annual financial statements are prepared and the bonded debt of the PPC be included in the liabilities section on the quarterly reports.

*County Judge/Executive Tim Conley's Response: We are receiving information from Ross Sinclair and our treasurer will start compiling this information.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**





CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS  
MORGAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

Morgan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
County Judge/Executive

  
\_\_\_\_\_  
County Treasurer

